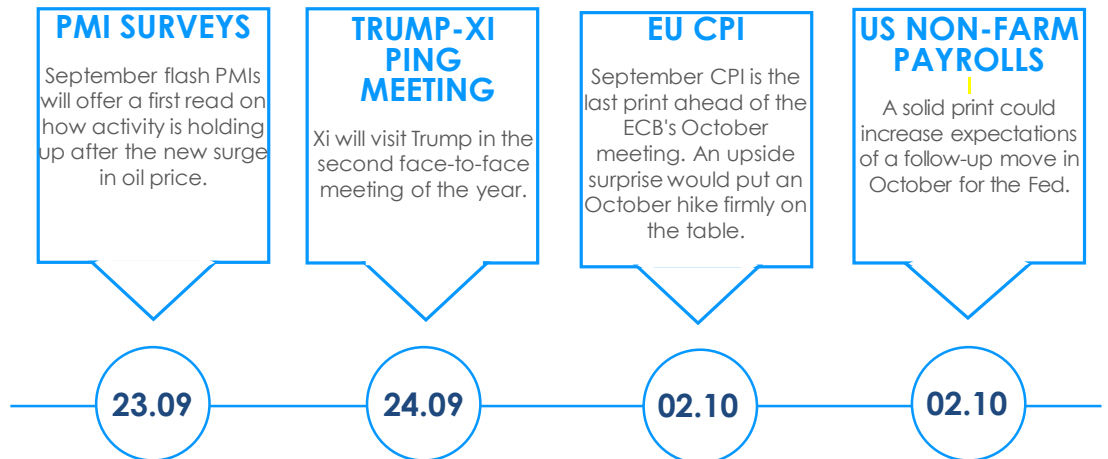


Main Events

Azimut Global Network

- * Milan
- * Abu Dhabi
- * Austin
- * Cairo
- * Chicago
- * Dubai
- * Dublin
- * Hong Kong
- * Estoril
- * Istanbul
- * Lugano
- * Luxembourg
- * Mexico City
- * Miami
- * Monaco
- * New York
- * Santiago
- * São Paulo
- * Shanghai
- * Singapore
- * St Louis
- * Sydney
- * Taipei



CENTRAL BANKS IN FOCUS: THE HIKE TO CREDIBILITY

- **Within eight days, the Fed, the ECB and BOJ all hiked rates, while the BOE kept policy on hold, with a 6-3 vote and a hawkish bias.**
- **With global economies showing resilience to the Middle East energy shock and inflation remaining well above target, central banks had no choice but to tighten monetary policy to preserve their credibility.**
- **Government bonds have borne the brunt: global government bond yields have surged further, reaching post-Covid highs across multiple jurisdictions.**

Over the last few days, the Federal Reserve, the European Central Bank (ECB) and Bank of Japan (BOJ) all delivered a 25bp rate hike. In contrast, the Bank of England (BOE) kept rates on hold, while showing a hawkish bias.

The underlying rationale behind the tightening is twofold. First, inflation remains above target, driven by the spillovers of the Middle East conflict onto energy markets. Second, a pressing need to restore credibility for the FED and BOJ, after showing reluctance to tighten. In this note, we provide a recap of the monetary policy decisions undertaken by the Fed, ECB, BOJ and BOE and evaluate their broader market implications.

Federal Reserve: removing a “dose of accommodation”

The FOMC raised the target range by 25bp to 3.75–4.00% on September 16th, with no dissenting votes. Chair Warsh cited firmer labor and activity data, summer inflation readings that “weren’t passing the test,” and the effect of geopolitics on commodity prices, with core PCE still above 3%.

The updated staff projections were more hawkish than anticipated across several dimensions. First, a 16–2 majority of participants penciled in at least one additional hike for 2026; second, the median core PCE forecast was nudged up to 3.4% for 2026 and 2.5% for 2027; third, the median longer-run neutral rate shifted up from 3.06% to 3.25%, while the newly introduced 2029 dot landed at 3.50–3.75%.

(continued)

During the press conference, Warsh repeatedly framed the move as “removing a dose of accommodation”, making a clear departure from the prevailing characterization of policy as neutral to slightly restrictive. Worth highlighting that inflation remains cost-driven, rather than wage driven.

Decelerating wage growth and productivity gains are anchoring unit labour costs, with price pressures stemming instead from energy, tariffs, AI-related demand and robust corporate margins. While this backdrop allows a gradual pace of tightening, market pricing signals another full hike before the end of 2026 and a terminal rate of 4.75% reached in Q3 2027, at the time of writing.

ECB: inflation “well above target for an extended period”

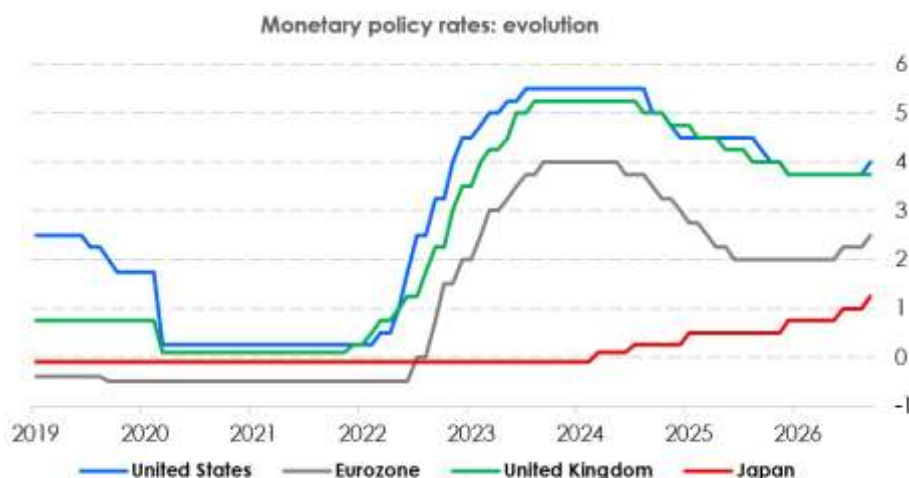
The Governing Council unanimously raised the deposit rate by 25bp to 2.50%, a decision President Lagarde described as a “no brainer”. The latest staff projections paired slightly stronger growth with a more persistent inflation overshoot, placing core inflation at 2.6% in 2027 and 2.3% in 2028. The revisions were attributed mainly to indirect energy effects, rather than to second-round dynamics. The language hardened, with the statement referring to inflation as “well above target for an extended period”, reviving a formulation last used during the 2022-2023 hiking cycle.

President Lagarde refrained from signalling the next step, putting little emphasis on the softer August print and dismissing neutral rate estimates as being of “no great importance”. Given that energy forwards are tracking close to the staff’s adverse scenario, a further 25bp step to 2.75% in December looks like the most likely outcome. However, an October move cannot be fully ruled out if September inflation surprises to the upside or early signs of second-round effects emerge from the ECB’s surveys.

Bank of England: on hold, but “the case for tightening is building”

The Monetary Policy Committee (MPC) kept the Bank Rate unchanged at 3.75% in a 6-3 vote, with Pill, Greene and Mann dissenting in favour of a 25bp hike. The decision to hold reflected a still-soft labour market and tighter financial conditions, with the Committee noting little evidence of material second-round effects. However, the MPC acknowledged that upside risks have increased since July, and Bank staff now project inflation to rise slightly above 4% in early 2027.

Notably, the four internal members (Bailey, Breeden, Lombardelli, and Ramsden) all signaled openness to raising rates, with the Governor stating that it is “likely that policy may have to tighten” should the conflict persist “as appears to be the case”. Separately, the Bank unveiled a multi-year plan to reduce its Gilt holdings to zero by 2034 through £20bn in annual sales alongside maturing debt. Crucially, active auctions will be paused while the Bank considers a new model under which the Debt Management Office would absorb the Gilts being sold.



Source: Bloomberg

(continued)

Bank of Japan: “the policy phase has changed”

The BOJ raised its policy rate by 25bps to 1.25% with a 7-2 majority. Board members Asada and Sato - both regarded as close to the Takaichi administration - dissented. Although the policy rate now sits within the BOJ's own neutral range estimate (1.1-2.5%), the statement reiterated that financial conditions remain accommodative and that the Bank intends to continue raising rates.

The key takeaway came from Governor Ueda's press conference. With underlying inflation now close to 2%, Ueda noted that “the policy phase has changed”, from a risk management approach focused on downside risks to a symmetric framework, giving full weight to upside risks. Ueda avoided mentioning a specific terminal rate, but suggested that a landing zone above neutral is not being ruled out. He also highlighted that foreign central bank tightening impacts Japan via the exchange rate, which therefore warrants careful monitoring.

Implications and outlook for global bonds

The renewed, forceful rise in government bond yields has unsettled financial markets, and Fixed Income investors in particular. Do current yields provide a generational opportunity for investors? Or is this the manifestation of an adjustment process that has much further to run?

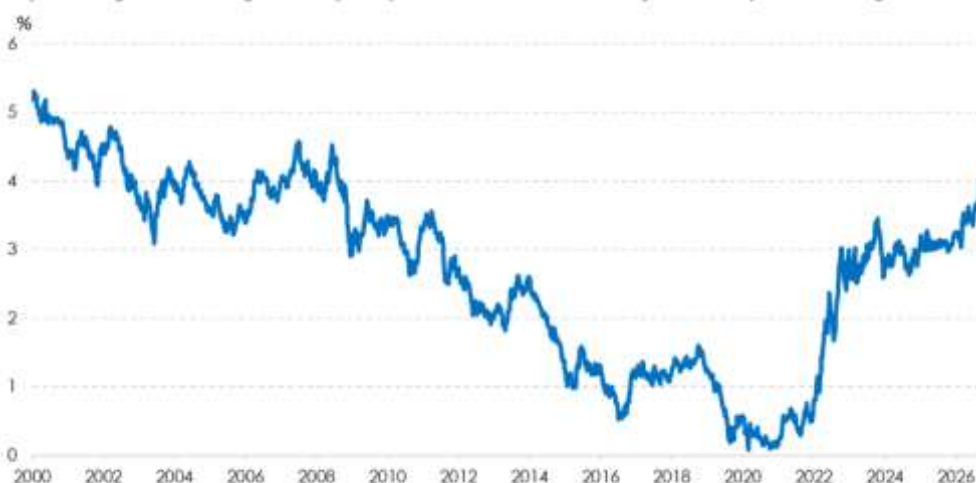
In the report “Global Bonds: from Downing Street to Capitol Hill, via Hormuz”¹ we argued that, in the short term, the outlook for global bonds was very much path dependent: while a relaxation of the hostilities in the Middle East would have provided a tailwind to Global Bonds, a further escalation would have resulted in continued upward pressure. We also added that, compared to the 2021-2022 episode, even in the event of a re-escalation, the downside risk would be more contained, as a consequence of a substantially higher starting point in monetary policy rates, a lower starting point in inflation, less expansionary fiscal policy and the different nature of the shock, this time around entirely driven by supply-side factors.

Do those points remain valid? In our opinion, they do.

In addition to reigniting tensions in the Middle East, three key elements have contributed to the recent sell-off in global bonds:

- First, investors questioning the credibility of central banks (Fed and BOJ in particular, after showing reluctance to hike);
- second, the broad realization that the surge in capex spending to fund AI infrastructure has pushed up the cost of capital;
- third, widespread positioning unwinds from shorter-term, leveraged investors (predominantly hedge funds) exacerbating the moves – as a reference, on September 10th (ECB day), the front end (Euribors) of the European yield curve saw the fourth largest daily spike in yields since 2009.

Equal-weighted average of 10-year yields for a basket of major developed sovereign markets*



Source: Bloomberg, Azimut Elaboration.

* Selected countries: U.S., U.K., Germany, France, Australia, Japan, Italy

(continued)

How does this translate into the outlook for global bonds?

The tactical case for bonds remains path dependent, as investors focus on developments in the Middle East and on the results of the US mid-term elections (November 3rd). That said, from a strategic point of view, we find a strong case for bonds, as higher yields improve carry and prospective returns while providing a buffer against further yield increases, and thus lower risk. Some simple bond math provides unequivocal support to this observation: an investor buying a benchmark 5y US Treasury at the current yield level and holding it for 12 months could stomach an additional increase of 100 bps and still make money on the position (breakeven yield level: 6.1%, about 125bps over current level). Similarly, for 5Y UK Gilts (breakeven: +135 bps), and 5y Germany Bobls (breakeven: +80bps)².

Furthermore, markets are already pricing a fully-fledged hiking cycle from major central banks. Current pricing implies nearly 4 hikes for the FED and the ECB, in addition to the ones already delivered, and nearly 5 hikes for BOE, with terminal rates expected to be reached in Q427. With respect to current pricing, a couple of observations are worth sharing:

- for the US and the Eurozone, medium dated expectations on future yield levels are at or above the maximum levels reached in 2022 and 2023, despite monetary policy rates being considerably lower than during that period, hence suggesting that "higher for longer" is already embedded in current pricing;
- even without de-escalation in the Middle East, a scenario where energy prices trade sideways from here would see base effects starting to exert downward pressure on inflation prints, from Q127, probably reducing, or removing, the need to tighten monetary policy after Q127.

Also, as previously anticipated, the institutional framework is moving to counteract the upward moves in long-dated yields. The buy-back announcement from the US Treasury and the BOE's proposal to offload its long-dated bond holdings to the Debt Management Office suggest the level of alertness is rising.

Lastly, should the need to "Pace the AI Frontier"³ result in a Capex slowdown for hyperscalers, bonds may benefit from less competition for capital as well as from investors reducing their all-time high overweight in equities, rotating into bonds.

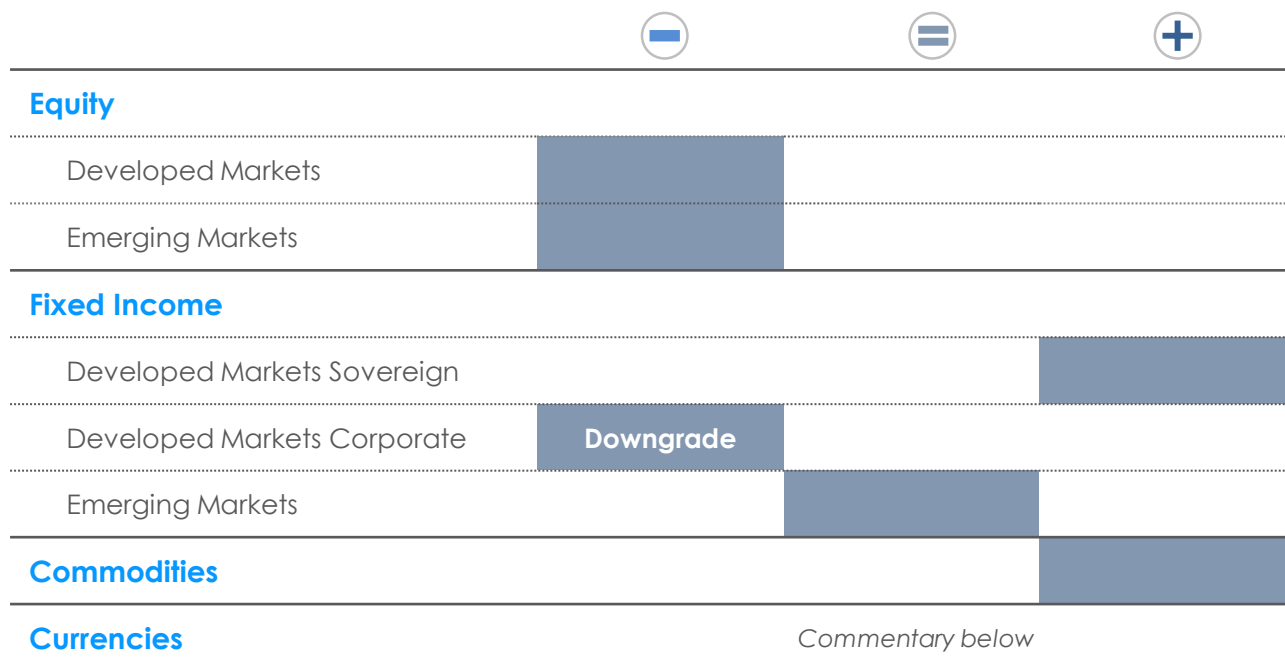
To conclude, despite the shifting macro backdrop, global bonds are an attractive proposition for investors willing to take a medium-to-long term view. Diversification and differentiation remain paramount to enhancing returns, as dispersion is likely to stay elevated. Short to intermediate maturities provide strong downside protection, while longer dated bonds offer a highly convex expression to lock in elevated, multi-decade high yields for the long run.

¹ Azimut Investments, [Global Bonds: from Downing Street to Capitol Hill, via Hormuz](#), Azimut Global View, May 26th, 2026.

² These examples consider 5 years benchmark bonds for US, UK and Germany. Results may change depending on the specific features of the bonds considered.

³ Dario Amodei, "We Must Pace the Frontier", 2025 (darioamodei.com/post/we-must-pace-the-frontier).

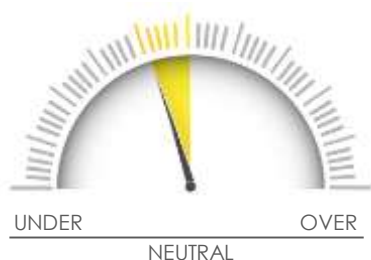
Asset Allocation View



⊖ UNDER = NEUTRAL ⊕ OVER

Equity

Developed Markets



We have maintained our **Slightly Underweight** recommendation on Developed Market equities. On the one hand, rising nominal and real interest rates, unfavorable seasonality, and ever-present geopolitical risks all point to the need for caution. On the other hand, however, the market remains resilient, with internal rotations among themes and sectors continuing to support equity indices. This suggests underlying strength, also explained by the strong earnings growth. The slight underweight position is therefore justified by the recent rise in interest rates, which has made the risk-free rate relatively more attractive, while we continue to believe that any meaningful correction should be viewed as a buying opportunity, as long as economic and earnings growth remain solid.

US =

Europe ⊕

Japan =

Emerging Markets



We have kept our **Slightly Underweight** recommendation on Emerging Market equities. The same factors—both positive and negative—mentioned above also apply here. Another reason for caution stems from the hawkish stances of many central banks, which point to the possibility of higher interest rates globally—a factor that typically weighs on emerging markets. On the positive side, emerging markets continue to trade at a significant discount relative to developed markets and remain the primary beneficiaries of hyperscalers' capex, owing to the heavy weighting of tech and semis in emerging market indices.

Asia ex-Japan =

EEMEA =

LATAM =

Fixed Income

Developed Markets Sovereign



We kept our **Slightly Overweight** recommendation on Developed Market sovereign bonds. Although geopolitics, inflationary pressures, and hawkish stances by central banks suggest that rates could continue to rise, we cannot ignore the fact that rates have returned to levels not seen in decades, particularly at the long ends, and only to a slightly lesser extent at the short ends. In a portfolio allocation, where one must consider the expected return of asset classes, the rise in rates cannot be ignored, and it is appropriate to gradually increase exposure. Not only to increase the portfolio's carry, but also because, from these levels, it is reasonable to expect that duration can act as a portfolio hedge in case of troubles. However, we emphasize "gradually over time" precisely because we cannot rule out the possibility that the rise will continue for a while longer. We still prefer the short- and medium-term segments, which are subject to less volatility, but we are also increasingly attracted to long maturities.

EU Core



EU Periphery



US Treasury



Japanese JGB



Developed Markets Corporate



We have downgraded once again our recommendation on Developed Market corporate bonds, this time to **Slightly Underweight**. Spreads have reached extremely tight levels and no longer adequately compensate for the implied credit risk. In the event of a spike in sovereign bond volatility for any reason—including the upcoming elections in the U.S., France, and Italy—there could be spillover effects into credit markets. Any widening of spreads in such a scenario could provide an attractive opportunity to re-enter the market. Within credit, we continue to prefer investment-grade bonds over high-yield.

IG Europe



IG US



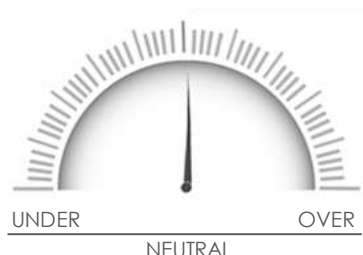
HY Europe



HY US



Emerging Markets



We have maintained our **Neutral** recommendation on Emerging Markets Debt. Spreads on emerging-market debt are also reaching record lows, but the overall yield to maturity remains higher for comparable ratings. A further tightening would likely result in a downgrade here as well.

Local Currency



Hard Currency IG



Hard Currency HY



Commodities



We have maintained our **Slightly Overweight** recommendation for commodities. We remain tactically more cautious on precious metals given the risk that global rates may still move higher, but the long-term bull case remains intact. We have no such concerns about industrial metals, particularly rare earths, as supply shortages are set to worsen in the coming years due to their increasing adoption across various strategic sectors, including artificial intelligence, the space race, military applications, and energy production.

Precious



Energy



Industrial



Agricultural



Currencies

We have maintained our **Neutral** recommendation on the **US Dollar**. The bottom line from the recent central bank meeting is that, in the short term, they will continue to raise rates in a coordinated manner; therefore, in relative terms, the status quo will remain unchanged. Since the interest rate differential—which is the main driver of currencies—indicates that all major currency pairs are close to their fair value, there is no reason to deviate from a neutral allocation.

Similarly, we have maintained our **Neutral** recommendation on the **Euro** as well.

The recommendation on the **Chinese Renminbi** remains **Neutral**.

Likewise, the outlook for other **emerging market currencies** has been maintained at **Neutral**.

Euro		USD		CNY		Other EM	
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